FEDERAL PREEMPTION OF SHRINKWRAP AND ON-LINE LICENSES

Professor Dennis S. Karjala

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I. INTRODUCTION

Are the traditional copyright balances between the rights of copyright owners and the rights of users merely a "default position" that is subject to variation by contractual agreement between owners and the users of particular copies? Or do those balances represent, rather, a resolution of policy tensions that are not amenable to private reordering by the transacting parties? While this issue could theoretically have arisen with traditional copyright-protected works, it is only the shrinkwrap and on-line licenses of the digital age, and potential state legislative or judicial validation of such licenses, that have pressed it upon us with practical force. This article concludes that, for works that have been widely distributed, the fundamental copyright balances—as reflected in such principles as the idea/expression distinction, the fact/expression distinction, and fair use—are not subject to private reordering under state contract law. Judge Easterbrook’s overreliance on narrow law-and-economics reasoning caused him to miss a critical part of the analysis, namely, the public interest in the copyright limitations, in upholding the shrinkwrap license in ProCD, Inc. v. Zeidenberg.¹

The basic argument can be stated rather simply. Copyright has always represented a balance between owners’ and users’ rights. Works of authorship are protected, but many individual elements of those works are deliberately left unprotected to encourage free use by subsequent authors (such as ideas, factual information, and useful procedures). This balancing act between protected and unprotected elements of a work is primarily effected, explicitly or (more typically) implicitly, by courts seeking to maintain a fair reward and incentive to authors and at the same time to leave enough basic building blocks in the public domain so that future authors will not be unduly inhibited in creating newer, and perhaps better, works. Under Zeidenberg, this carefully nurtured balance is in danger of tilting almost completely in the direction of the copyright owner who offers copies of works in digital form pursuant to

* Copyright © 1996. Dennis S. Karjala. All Rights Reserved. An outline of the general argument developed in this article has been published in a Festschrift to Professor Dr. Norbert Horn. Dennis S. Karjala, The Future of Copyright in the Digital Age, in Deutsches und Internationales Bank- und Wirtschaftsrecht im Wandel (H. Herrmann et al. eds., 1996). The author is indebted to Robert A. Kreiss for helpful comments on an earlier draft of this article.

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¹ 86 F.3d 1447 (7th Cir. 1996).
purported "licenses." In the digital future, access to many works may be available only to people who "contract" in advance, for example, not to use the underlying ideas to create a competing work, not to further distribute the work or anything contained in the work, not to download any of the factual information contained in the work, not to quote from the work, and so forth. If these "licenses" are uniformly enforceable, all of the users' rights of copyright will soon disappear.

On the other hand, we know that some contracts with respect to some works must be enforceable, even if they restrict use of otherwise copyright-unprotected elements. A writer should, for example, be able to enforce an agreement not to use the underlying idea of her unpublished novel or script, if such agreement is a condition to access that is not otherwise available. The question is whether there is a principled basis for distinguishing the types of works that can be the subject of such restrictive licensing and those that cannot.

This article seeks that principled basis in Professor Robert Kreiss's important distinction between commercialized and noncommercialized works. It begins by arguing that United States copyright law is and should remain philosophically based firmly in instrumentalist rather than natural rights views, but that in any event there is no denying the strong public interest not only in rewarding past creators but also in nurturing current and future creators. It goes on to argue that the decision in the 1976 Copyright Act to bring unpublished works into the federal scheme did not and was not intended to change any of the fundamental policy tradeoffs for widely distributed works that have been a part of copyright from its inception. In essence, the decision to afford copyright protection to unpublished works represented simply a federalization for housekeeping and efficiency purposes of the old common law right of first publication. The policy balances with respect to such rights of first publication are very different from those governing widely distributed

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2. Robert A. Kreiss, Accessibility and Commercialization in Copyright Theory, 43 U.C.L.A. L. Rev. 1 (1995). Professor Kreiss's concept of "commercialization" may not precisely capture the social policy values involved in the preemption problem. The statutory preemption question hinges on whether a purported "contract" or "license" establishes a bargained-for relationship that distinguishes a contract claim qualitatively from a copyright claim. See infra notes 48-67 and accompanying text. Professor Kreiss would count as "commercialization," for example, negotiated single-party trade secret licensing agreements with persons outside the company. Kreiss, supra, at 15-16. Such an agreement might promote important state interests based on the parties' relationship that truly distinguish, in the preemption analysis, the nature of the rights claimed from copyright. Professor Kreiss is primarily worried about the access problem, and his definition of "commercialization" serves well as an important factor in the fair use analysis. Because fair use is itself factor-balancing, however, the precise definition of "commercialization" is not in itself outcome determinative. Preemption, on the other hand, is an either/or decision that hinges on the single question of whether a particular purported contract does or does not establish a state-law claim that is qualitatively distinguishable from a copyright claim. Consequently, I have chosen the term "widely distributed" or even the notorious word "published" (where it must be understood that it is a shorthand for "widely available access" and is not the technical definition that, for example, can exclude even widely performed movies and plays from the definition of publication, see id. at 18) to call to mind perhaps more readily the factors that evaluation of the qualitative nature of the claim demands.
works, and in that sense we actually still have two copyright laws operating in parallel, notwithstanding their apparent unification in a single federal statute.

Once that foundation has been laid and the public nature of the policy tradeoffs applicable to widely distributed works brought into focus, it follows directly that state enforcement of purported contracts or licenses—even though perhaps valid under state law—that restrict basic users’ rights reserved to the public by the copyright statute would fundamentally frustrate the federal scheme. The article therefore concludes that state contract law must, to this extent, be preempted by federal copyright.

II. THE GOALS OF COPYRIGHT

Much has been written on the constitutional and social policy goals of copyright. The usual analysis divides copyright philosophy into two camps. On one side is the natural rights view, with its strong moral rights tradition and emphasis on the natural justice of recognizing property rights in the person creating the work. In contrast stands the instrumentalist or public-benefit view that regards copyright protection simply as a means to the social policy end of making more and better works available to the public, with reward to the author a vital but theoretically secondary consideration. Generally, the European nations, especially France, are said to follow natural rights philosophy and the United States is said to follow the instrumentalist view.3

The precise tailoring of the Constitution’s patent and copyright clause appears to embody the instrumentalist view in its text by requiring that federal copyright legislation based upon its enabling power promote the progress of science.4 The exclusive rights of authors are only the means by which that ultimate goal—the progress of science—is achieved.5 This instrumentalist interpretation of the constitutional basis for United States copyright law has often been restated by the United States Supreme Court. For example, consider the following language from Twentieth Century Music Corp. v. Aiken:6

3. But see Adolf Dietz, The Artist’s Right of Integrity Under Copyright Law—A Comparative Approach, 25 INT’L REV. INDUS. PROP. AND COPYRIGHT L. 177 (1994) (showing that even under the European moral rights tradition, actual cases are usually decided by a balancing of interests); Jane C. Ginsburg, A Tale of Two Copyrights: Literary Property in Revolutionary France and America, in OF AUTHORS AND ORIGINS 131 (Brad Sherman & Alain Strowel eds., 1994) (concluding that both French and U.S. copyright law were concerned, at their inceptions, with both the progress of knowledge and the rights of authors based on their labor); R. Anthony Reese, Note, Reflections on the Intellectual Commons: Two Perspectives on Copyright Duration and Reversion, 47 STAN. L. REV. 707 (1995) (showing that U.S. law has elements of both authors’ natural rights and public cost/public benefit traditions).
4. U.S. CONST. art. I, § 8, cl. 8. This clause empowers Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”
5. See Pierre N. Leval & Lewis Liman, Are Copyrights for Authors or Their Children?, 39 J. COPYRIGHT SOC’Y 1, 3-4 (1991) (noting that in this clause the framers “outlined with some specificity both the substance that the laws of copyright were to provide and the objectives they were to pursue”).
6. 422 U.S. 151 (1975).
The limited scope of the copyright holder's statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. The immediate effect of our copyright law is to secure a fair return for an "author's" creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.7

Two eminent commentators have even argued that the elimination of state "common law copyright" in the 1976 Copyright Act, by bringing even unpublished works within the federal system,8 necessarily incorporated the instrumentalist philosophy and rejected an approach based on natural rights of authorship. They argue that the statute's clear distinctions between the copyright in a work—a set of statutory rights to which a work is subject—and the work itself9 compel the conclusion that copyright rights are no more than a statutory grant aimed not solely at benefiting authors but at accommodating as well the interests of other entrepreneurs and users.10

Certain aspects of the 1976 Act, especially recent amendments and legislative proposals, are admittedly difficult to explain solely on the basis of the instrumentalist or public-benefit rationale. For example, the 1976 Act substantially increased the term of protection even for existing works, as to which the extension of the term of protection could not even theoretically be justified as an increased creation incentive (because the works were already in

7. Id. at 156; see also Fogerty v. Fantasy, Inc., 114 S. Ct. 1023, 1028 (1994) ("The primary objective of the Copyright Act is to encourage the production of original literary, artistic, and musical expression for the good of the public."); Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc., 499 U.S. 340, 349 (1991) ("The primary objective of copyright is to reward the labor of authors, but [to promote the Progress of Science and useful Arts.") (citations omitted); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984) ("The monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved."); United States v. Paramount Pictures, Inc., 334 U.S. 131, 158 (1948) ("The copyright law, like the patent statutes, makes reward to the owner a secondary consideration."); Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932) ("The sole interest of the United States and the primary object in conferring the [copyright] monopoly lie in the general benefits derived by the public from the labors of authors.").

8. Federal copyright protection subsists in original works of authorship from the moment of creation. 17 U.S.C. §§ 101 (definitions of "created" and "fixed"), 102(a) (1994). Even works created but not published before 1978 lost any common law right of first publication they may have had prior thereto. Copyright protection for these works must now be found in federal law. Id. §§ 301(a) (preemption of federal copyright), 303 (setting the federal copyright terms for previously unpublished works).

9. E.g., 17 U.S.C. § 202 (distinguishing exclusive rights of copyright from ownership of any material object in which the work is embodied).

10. L. RAY PATTERSON & STANLEY W. LINDBERG, THE NATURE OF COPYRIGHT 120-22, passim (1991) [hereinafter THE NATURE OF COPYRIGHT]. These same commentators also point out that none of the background studies for use by Congress in adopting the 1976 Act focused on either the history or the philosophy of copyright. Id. at 91-92. Given the uniform instrumentalist interpretations of the courts, congressional silence can hardly be taken as intending a fundamental philosophical shift from that instrumentalist view to a natural rights basis.
existence).\textsuperscript{11} The elimination of the renewal requirement in 1992,\textsuperscript{12} which of course applied only to works already in existence, is also difficult to explain on a public-benefit rationale. Both actions dramatically reduced the public domain, which raises the costs of using copyright subject matter and limits the freedom of current authors to build on existing works in creating new works, and gave public benefits that range from the nonexistent to the speculative.

Nevertheless, there is very little in either the legislative history of the 1976 Act or of its subsequent amendments that indicates any conscious congressional intent to adopt "natural rights" of authors as a basis for copyright legislation.\textsuperscript{13} Even supporters of the current proposals to extend the term of protection further\textsuperscript{14} have argued their case largely in terms of the benefits to international trade that supposedly would result from conforming our term to the recently increased term in Europe.\textsuperscript{15} In fact, authors (as opposed to owners of current copyrights about to expire) would benefit very little from these extensions of the copyright term,\textsuperscript{16} so these occasional references to the plight of the author are better seen as a political ploy than as representative of a fundamental change of philosophy.\textsuperscript{17}

\begin{enumerate}
\item For works published prior to 1978, the 1976 Act increased the term from a maximum of 56 years to 75 years. 17 U.S.C. § 304(a)-(b). In anticipation of this increased term for existing works, beginning in 1962 Congress regularly extended the renewal terms that were about to expire, so that works published after 1906 (if their copyrights were duly renewed) all enjoyed a 75-year copyright. See Robert A. Gorman & Jane C. Ginsburg, Copyright for the Nineties 331 (1993).
\item The House Report does state that 56 years is not long enough to insure "fair economic benefits" to an author and his dependents and that a short term discriminates against serious works whose value is not immediately recognized. H.R. Rep. No. 94-1746, 94th Cong., 2d Sess. 134 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5750 [hereinafter HOUSE REPORT]. However, the other reasons given in support of the longer term essentially adopt public benefit as the standard (even if they are unconvincing in terms of meeting that standard). Id. For example, the House Report states that too short a term does not give a substantial benefit to the public, that a term based on the life of the author would eliminate confusion that had arisen under the old rules based on publication, and that many benefits would flow from harmonization with the term prevalent in most other countries. Id. at 134-35.
\item H.R. 989, 104th Cong., 1st Sess. (1995); S. 483, 104th Cong., 1st Sess. (1995). These bills would have extended the current periods of protection by another 20 years, but they were not adopted by the 104th Congress. Similar legislation is certain to be reintroduced in subsequent Congresses, however.
\item In introducing the extension bill in the Senate, Senator Hatch did speak of authors' reaping "the full benefits to which they are entitled from the exploitation of their creative works" and of the expectations of authors to pass their copyrights on to their descendants and heirs. 141 Cong. Rec. S3391 (1995) (statement of Sen. Hatch). However, the bulk of his argument was based on the trade benefits arising from harmonization. Id. at S3390-92. Similarly, the Register of Copyright, Marybeth Peters, couched her argument almost entirely in terms of public benefit based on the "constitutional mandate." Copyright Term Extension Act: Hearings on H.R. 989 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary, 104th Cong., 1st Sess. 23-36 (1995) [hereinafter Hearings] (statement of Marybeth Peters, Register of Copyright).
\item Jessica Litman, Professor of Law at Wayne State University, has written broadly on the interest-
More fundamentally, no matter how appealing claims to "natural rights" might seem in some specific case, no country follows a pure natural rights theory for intellectual property. Natural rights theory, in itself, does not and cannot incorporate limitations on either the duration or the scope of the right. How do natural rights justify extending the copyright term (or even making it perpetual) while maintaining the relatively short period for the duration of patents? Many inventions are at least as intellectually creative as the bulk of copyright-protected works. Nor would we distinguish between idea and expression in determining the scope of copyright protection under a pure natural rights perspective. Often the most creative aspect of a work is its underlying "idea," yet nothing in pure natural rights theory can tell us where to draw the line between protected and unprotected elements of works. This line-drawing problem is, in fact, one of the most important policy problems in copyright law, as judges and legislators seek to draw a balance between creation incentives and the social desirability of allowing others to make use of the work for further developments. We have concluded that the free use of "ideas" results in more works from subsequent authors than we lose by failing to protect them. In other words, we apply the public-benefit, or instrumentalist, philosophy in setting the limits on intellectual property rights. Vague appeals to "natural rights" of authors are almost invariably a smoke screen aimed at reducing the public benefits of copyright in favor of greater monetary returns to copyright owners.

We need not, however, resolve once and for all the instrumentalist/natural rights debate. For purposes of determining the enforceability of shrinkwrap and on-line "licenses," it is sufficient to note that our copyright law does limit the exclusive rights of copyright owners. One such limitation is, of course, the idea/expression distinction. Another is the fact/expression distinction. 

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18. 17 U.S.C. § 102(b). The text of § 102(b) reads as follows:

In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

Id. See also Baker v. Selden, 101 U.S. 99 (1879). Thus, § 102(b) and Baker exclude more than just ideas, but the "idea/expression" distinction is a useful shorthand.

Another is the fair use doctrine. Yet another is the first-sale doctrine. As the next section demonstrates, these fundamental limitations on the rights of copyright owners are intended to benefit the general public and not simply the owners of particular copies of a copyright-protected work.

III. THE TRADITIONAL COPYRIGHT BALANCES

Until 1978, federal copyright protected published works, and the law that developed under the 1909 Act and earlier statutes always represented a balance between owners’ and users’ rights. Works of authorship are protected, but individual elements of those works, such as ideas, factual information, and useful procedures, are unprotected. These elements may be used freely by subsequent authors. Moreover, even when normally protected elements are taken, courts can more finely tune the balance through the fair use doctrine. By honing these balances as carefully as possible, courts attempt to optimize control and return to past authors, create a nurturing environment for future authors, and assure a good supply of desirable works for consumers.

Do copyright’s exclusive rights and the statutory limitations on those rights simply regulate the relationship between the copyright owner and the specific purchaser of a copy of the work? That is, is the federal copyright scheme of carefully honed balances between owners’ and users’ rights simply, a default position that is subject to private reordering through contract? For widely distributed works, the answer to these questions is clearly, “No.” The exclusive rights of copyright define the relationship between the copyright owner and the general public, many of whom may not be users of copies of a particular work at all. To allow private reordering of these rights by agreement between the copyright owner and the direct users—if state contract rules manage to reach all such users—would be to ignore the interest of the general public that the copyright balances have been so carefully designed to protect. Bringing unpublished works into the federal system in 1976 did not change the public interest in the copyright limitations that have always applied to published works.

The clearest example of public benefit from limitation on copyright’s

21. 17 U.S.C. § 109(a). The House Report explicitly states that the first-sale doctrine does not imply that contract restrictions on future disposition between buyer and seller would be unenforceable between the parties. HOUSE REPORT, supra note 13, at 79. It does not say, however, that everything labeled “contract” under state law would automatically be enforceable. The types of “contracts” that might be permitted to restrict the first sale doctrine is a question of federal law. See infra notes 56-60 and accompanying text.
22. See generally THE NATURE OF COPYRIGHT, supra note 10 (addressing the history of copyright and its constitutional roots while providing a structure for interpreting the 1976 Copyright Act). For an important recent article on the complex social role of copyright, see Neil Weinstock Netanel, Copyright and a Democratic Civil Society, 106 YALE L.J. 283 (1996).
exclusive rights is the idea/expression distinction. If access to ideas, systems, processes, methods of operation, or discoveries, for the purpose of use by later authors in creating new works, were deemed by Congress no longer to be a factor for both published as well as unpublished works, there would be no need for section 102(b) of the Copyright Act. Consumer end use of the ideas contained in a work is fully satisfied by public distribution of the work.\textsuperscript{24} The idea/expression distinction and section 102(b) are aimed at defining what later authors can freely use in creating new works for the benefit of the public.\textsuperscript{25} The free use of unprotected elements of copyright-protected works remains a fundamental part of the public/private tradeoff for widely distributed works, notwithstanding the decision to include unpublished works within the ambit of federal copyright.

It may well be the case, for example, that many purchasers of copies of a particular work would be quite willing to contract away all of their users’ rights of copyright. That is, they would agree not to redistribute the purchased copy, not to use any of the ideas in the work to create other works, not to make a “fair use” of any of the expression in the work, and so forth. They are, in other words, strictly consumers of the works, whose consumption is never expected to lead to the creation of newer works. That they might be willing, as a condition for access to the work, to abandon their users’ rights in no way implies that copyright owners should be able to reap the benefits afforded by the exclusive rights of copyright and still compel all who seek access to the work to give up their users’ rights. The public has a strong interest in insuring that, once a work has been made widely available (that is, the copyright owner is essentially no longer restricting access, except perhaps against the payment of fees), its unprotected elements become potential source material for other authors, who use those elements to create new and different works. This cannot be a matter for private ordering between copyright owners and purchasers of specific copies of the work—or something that is ordained by a state statute—because the public interest implemented by the federal limitations is not represented in the contracting process. Consequently, any state contract rule that purported to validate any shrinkwrap license terms that most licensees

\textsuperscript{24} William F. Patry, The Fair Use Privilege in Copyright Law 401 (1985). Professor Patry has made this argument with respect to reverse engineering of computer programs, asserting that the public’s need for access to programs is fully satisfied by the marketing of the original, so that § 102(b) plays no further role. \textit{Id}. This argument rests on the faulty assumption that the objective of copyright is to merely make creative works available to society in some useful form whether or not the underlying ideas or even the literal expression in those works is directly available to the public. See Dennis S. Karjala, Copyright Protection of Computer Software, Reverse Engineering, and Professor Miller, 19 U. Dayton L. Rev. 975, 1009 n.123 (1994).

\textsuperscript{25} Brief Amicus Curiae of Eleven Copyright Law Professors at 17 n.29, Sega Enter. Ltd. v. Accolade, Inc., 977 F.2d 1510 (9th Cir. 1992), amended by Order and Amended Opinion, No. 92-15655, 1993 U.S. App. LEXIS 78 (9th Cir. Jan. 6, 1993), reprinted in 33 JurisMetr. J. 147, 156 n.29 (1992); see Kreiss, supra note 2, at 11-14 (discussing the importance of access in copyright law both to competitors and to users).
would be willing to accept—indeed, would reduce to naught—the benefits to the public that flow from the federal limitations on copyright rights.

A perhaps unrealistic example makes the point most poignantly. Suppose the publisher of a history book markets the book by wrapping it in see-through material in which a "contract" is plainly visible stating that, by purchasing (or "licensing") the book and opening the wrapper, the buyer agrees not to use any of the historical theories contained in the book either in teaching or in the development of a competing book and the buyer further agrees not to transfer the book or convey any of its ideas to third parties. Let us assume that state law validates this contract. One first reaction might be, "Well, if the publisher is that concerned about protecting the theory and if every purchaser agrees, what is the harm from enforcing the contract?"

The harm is subtle, but real. The idea/expression distinction of copyright is crucial to the optimal advance of culture. We refuse to protect ideas under copyright not because ideas show no intellectual creativity. Many ideas are in fact highly creative (think of the theory of relativity—first announced in a clearly copyright-protected work). Rather, we do not protect ideas because to do so would not provide an incentive to creation that would outweigh the harm resulting from tying up so many cultural building blocks. Even if

26. Professor Lemley quotes a 1994 proposed revised tentative draft of U.C.C. Article 2 that would have validated most shrinkwrap license terms, but provided an exception for terms that most licensees would refuse to accept if they were aware of them. Lemley, supra note 23, at 1260-61, 1293 app. The most recent version of proposed Article 2B would do much the same thing. See infra notes 75-88 and accompanying text.

27. The example is not wholly unrealistic. Charles Keller reports on the CNI-COPYRIGHT discussion list the following "Notice to Purchaser" printed on a page bound inside the front cover of GERTRUDE ATHERTON, REZANOV (1906), published by the Authors and Newspapers Association, New York:

This copyright volume is offered for sale to the public only through the authorized agents of the publishers, who are permitted to sell it only at retail and at fifty cents per copy, and with the express condition and reservation that it shall not, prior to August 1st, 1907, be resold, or offered or advertised for resale. The purchaser from them agrees to this condition and reservation by the acceptance of this copy. In case of any breach thereof, the title to this book immediately reverts to the publishers. Any defacement, alteration or removal of this notice will be prosecuted by the publishers to the full extent of the law.

Posting on CNI-COPYRIGHT Discussion List from Charles Keller to cni-copyright@cni.org (Sept. 2, 1996) (on file with the University of Dayton Law Review).

28. The typical shrinkwrap license on a computer program is another, perhaps more realistic, example. Most shrinkwrap licenses purport to prohibit reverse engineering of the program. The Sega case permits as a fair use such copying for disassembly purposes if necessary to extract otherwise unavailable copyright-protected elements. Sega Enterprises Ltd. v. Accolade, Inc., 977 F.2d 1510 (9th Cir. 1992), amended by Order and Amended Opinion, No. 92-15655, 1993 U.S. App. LEXIS 78 (9th Cir. Jan. 6, 1993). Professor Kreiss has pointed out to me that reverse engineering need not involve disassembly, and a binding "license" not to reverse engineer could prohibit, for example, even observation of the program's functionality or studying the users' manual for competitive purposes. Moreover, if these "licenses" are enforceable, they could be used to prohibit reverse engineering of any product, not just computer programs. To this extent the "license" is even more onerous than simply limiting disassembly. Of course, state law prohibitions on reverse engineering of noncopyright subject matter would not be preempted by the Copyright Act, although they would almost surely be preempted by the patent law. See Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 168 (1989).
purchasers out of 100 never have any intention whatsoever of using the work for anything other than their own reading or consumption pleasure, the use by that 100th purchaser of the work as a starting point for an improved theory is crucial to cultural progress. This is one of the most important of the public benefits provided by the copyright tradeoffs.

This example shows that copyright cannot be simply a “default position” against the background of which copyright owners and users should be fully free to make variations by contract. Fundamental federal copyright policy holds that, at least for widely distributed works, the copyright owner is not free to draw the balance between owners’ and users’ rights as he or she chooses. The free use of unprotected elements of such works, such as ideas and facts, and the fair use of even protected elements by consumers and later authors are the quid pro quo that benefit the public in exchange for the public’s recognition of the exclusive rights of copyright. If those public benefits can be bargained away through form “contracts” drafted by the copyright owners, copyright will quickly become strictly an owners’ rights statute—with copyright owners enjoying all the powerful rights and remedies the statute provides but with the public denied the benefits that would otherwise accrue from the free and fair uses that heretofore have always been a part of the copyright tradeoffs.

IV. ProCD v. Zeidenberg

Judge Easterbrook’s opinion for a Seventh Circuit panel in ProCD, Inc. v. Zeidenberg,29 while perhaps a model of law-and-economics reasoning for application to works that have not been made generally accessible (loosely speaking, unpublished works), wholly fails to recognize any public interest in the copyright balances adopted for widely distributed works. In Zeidenberg, the plaintiff had compiled on CD-ROM disks, at great expense, a national telephone directory, accessible via a computer program that plaintiff sold together with the disks. A shrinkwrap license prohibited commercial use of the information contained in the database. The defendant bought a single copy of the plaintiff’s program and database and transferred the data to his own Internet web site, which thus made the data available to anyone using the Internet. Plaintiff sued for copyright infringement.30

Proceeding on the assumption that the information taken by the defendant was not copyright protected,31 Judge Easterbrook concluded that the shrinkwrap license was binding on the defendant under state contract law and that such state-law protection was not preempted by section 301(a) of the 1976 Act:32 “[A] simple two-party contract is not ‘equivalent to any of the exclusive

29. 86 F.3d 1447 (7th Cir. 1996).
30. Id. at 1449-50.
31. Id. at 1449.
32. 17 U.S.C. § 301(a);
rights within the general scope of copyright and therefore may be enforced.\textsuperscript{33} The \textit{Zeidenberg} opinion does not even address the issue of whether enforcement of state contract law under these circumstances might be preempted under the Supremacy Clause.\textsuperscript{34}

The next section shows that the difference between generally inaccessible and generally accessible works is crucial for understanding the structure and operation of the 1976 Act. The following section then shows how this difference affects the preemption analysis under both section 301 and the Supremacy Clause. It goes on to apply that analysis to proposed Uniform Commercial Code Article 2B and then to the facts of \textit{Zeidenberg}.

V. THE DIFFERENCE BETWEEN WIDELY ACCESSIBLE AND GENERALLY INACCESSIBLE WORKS

Judge Easterbrook's error in failing to distinguish between privately negotiated contracts covering generally inaccessible works and shrinkwrap licenses purporting to cover works that are widely distributed is understandable. Prior to the 1976 Act, essentially all works under federal copyright had been published,\textsuperscript{35} and it occurred to few copyright owners that they might be able to enjoy the federally recognized exclusive rights while at the same time eliminating the federal limitations on those rights by using purported "contracts" that would come into force upon the purchasers' opening of the package.\textsuperscript{36} When unpublished works were licensed, therefore, any

\begin{quote}
\textbf{[A]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright \ldots are governed exclusively by this title. \ldots No person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.}
\end{quote}

\textsuperscript{33} \textit{Zeidenberg}, 86 F.3d at 1455. The court agreed that a work is the "subject matter of copyright" if it is the type of work covered by § 102 and § 103 of the Copyright Act, even if the specific work in question is not afforded protection under that statute. \textit{Id.} at 1453.

\textsuperscript{34} Robert W. Gomulkiewicz & Mary L. Williamson, \textit{A Brief Defense of Mass Market Software License Agreements}, 22 Rutgers Computer & Tech. L.J. 335 (1996), also argue the economic efficiency and other supposed virtues of shrinkwrap licenses but give no consideration to the preemption problem or the ways the enforcement of such licenses may trench on copyright values. \textit{See also} Carey R. Ramos & Joseph P. Verdon, \textit{Shrinkwrap and Click-On Licenses After ProCD v. Zeidenberg}, 13 Computer Law., Sept. 1996, at 1.

\textsuperscript{35} Maureen A. O'Rourke, \textit{Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms}, 45 Duke L.J. 479 (1995) more substantially argues that digital technology may require departure from traditional copyright norms and that preemption is too clumsy a tool to solve the misappropriation problem to which works in digital form are subject. Antitrust law is offered as the more appropriate means of drawing the necessary social policy balances. \textit{Id.} at 545-51, 557.

\textsuperscript{36} Under the 1909 Act, federal copyright was secured either by registration of the work or by publishing or offering the work for sale with the copyright notice. Act of Mar. 4, 1909, ch. 320, §§ 10, 12, 35 Stat. 1075, 1078.

\textsuperscript{36} \textit{But see supra} note 27. If fear of federal preemption alone was not enough to deter the effort, the unlikelihood of state enforcement of such "contracts," especially against third party purchasers, probably turned the balance. There has already been significant legislative activity at the state level aimed at validating shrinkwrap licenses, however. \textit{E.g.}, Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988)

limitations on what would otherwise have been the users’ rights of copyright did not offend any federal interests: Federal copyright law never required publication or access to unpublished works, so even drastic limitations on use of the ideas or information contained in unpublished works, agreed to by the user as a condition of access, were simply a matter of state regulation.

It may have simply been coincidence, but the importance of digital technology was just beginning to be widely appreciated around the time the 1976 Copyright Act went into effect, that is to say, at the time the common law right of first publication was, for fixed works, replaced by the full panoply of federal copyright rights. Without much fanfare, two schemes for the protection of what is now federal copyright subject matter were combined into one—one state scheme that applied to unpublished works and another federal scheme that applied to published works. The new combination still carried the name (“copyright”) that had previously been applied only to the scheme for published works. The question that this combination forces is whether Congress intended to change the different public/private tradeoffs that had mutually coexisted when there were two separate systems of law for the two types of works.

Certainly there is nothing in the legislative history to suggest that Congress had any intention to change the long-established tradeoffs for widely distributed works. The House Report begins its rationale for combining the state right of first publication and exclusive federal copyright protection after publication by labeling the dual system “anachronistic, uncertain, impractical, and highly complicated.” It then provides four arguments for moving to a uniform federal system: (1) To promote uniformity and avoid the practical

37. See Kreiss, supra note 2, at 34-41.
38. See id. at 22-24. Professor Abrams has convincingly shown that “common law copyright” is an inappropriate term for the level of protection afforded by the common law. Howard B. Abrams, The Historic Foundation of American Copyright Law: Exploding the Myth of Common Law Copyright, 29 WAYNE L. REV. 1119 (1983). The common law right in the author was at most a right of first publication. Id. Other commentators have argued that the common law might be a basis for recognizing certain moral rights of authorship. THE NATURE OF COPYRIGHT, supra note 10, at 167-71. There is no disagreement, however, that the right of first publication was formerly a question of state law or that it was brought into the federal copyright system by the 1976 Act. The issue under consideration here is the effect on federal copyright rights and limitations with respect to published works resulting from incorporation of the common-law right of first publication.
39. See Karjala, supra note 24, at 1008-09.
40. HOUSE REPORT, supra note 13, at 129.
difficulties involved in determining and enforcing rights in a variety of forums; (2) To eliminate the increasing artificiality of “publication” as a dividing line after the 20th century communications revolution; (3) To place a time limit on the exclusive rights in unpublished works; and (4) To improve international dealings in copyrighted material.41

These arguments do not indicate or even suggest an overarching intent to reformulate the fundamental copyright balances for the widely distributed works that have always been a part of federal copyright. Under prior law, an author who was willing to forgo the economic returns that normally come only through distribution of her work had the right and power, by not publishing, to exclude or limit access to her ideas, and the drafters of the 1976 Copyright Act did not seek to change that position for unpublished works. In Professor Kreiss’s terms, copyright’s public/private quid pro quo is in balance when the copyright owner provides access by commercializing the work and relying on copyright’s exclusive rights system, including the fundamental limitations on those rights, for an economic return. It is also in balance when the copyright owner forgoes the economic benefits of widespread distribution and limits access to the work.42 There is no indication that Congress intended to allow authors who rely on copyright’s exclusive rights in seeking the economic benefits that can come from wide distribution to abrogate unilaterally the statutory limitations on those rights by analogizing their position to that of the author who chooses self-help over the copyright system and holds the work generally inaccessible.

The policy balances are very different for the two types of works. Recognizing a right of first publication in authors protects their reputational interests by insuring that nothing is published under their names until they conclude that it meets their standards. It also protects privacy interests of authors in diaries or private letters that they may wish never to have published.43 Moreover, authors always have a right of first publication as a practical matter, even if such a right were not legally recognized, provided they are careful about allowing access to the work. Legal recognition of the right of first publication means that authors can be less elaborate in the systems they devise for protecting works that they do not wish to be published, and it discourages socially undesirable “snooping” by acquaintances or journalists who might hope to profit by publishing something the author prefers to keep private. Essentially, the right of first publication trumps the copyright balances so carefully drawn for commercialized works, but based on notions of privacy and fairness rather than copyright reasoning.

41. Id. at 129-30.
42. Kreiss, supra note 2, at 20-21.
43. Id. at 9.
Thus, there is no reason to believe that Congress intended to change the underlying policies in either case by bringing—for housekeeping and efficiency reasons—unpublished works under federal copyright protection. On the contrary, there are very good reasons for maintaining the carefully honed copyright balances for widely distributed works—most importantly the growth and advance of culture that results from freely available basic building blocks. Before we cast away these traditional balances, we should have good, and well articulated, reasons for doing so.

VI. PREEMPTION

Whether terms in shrinkwrap or on-line licenses that override federal limitations on copyright rights are enforceable under state law remains a matter of energetic debate. In any given case, an argument may well be available that no “contract” was made under state law or that a particular term may not be enforceable. For purposes of this analysis, I ignore these questions and assume that the purported “license” or term in question is valid under state law. On that assumption, the inquiry is whether the enforcement of such a provision is preempted by federal law.

Even with these simplifying assumptions, the preemption question is complex. Preemption can occur under section 301 of the 1976 Act, which preempts state rights “equivalent” to federal copyright rights in copyright subject matter. Preemption can also occur under the Supremacy Clause of the Constitution, where the state law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”

A. Preemption Under Section 301

Section 301(a) preempts “all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . . .” The analysis under section 301 therefore has two

44. See generally Lemley, supra note 23.
48. 17 U.S.C. § 301(a). The subsection goes on to state that “no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.”
prongs: Are the state rights in question in fixed works of authorship that come within copyright subject matter, and are these state rights equivalent to any of the exclusive rights of copyright specified by section 106? 49

The first prong need not detain us too long. We are essentially assuming that a work of the type protected by federal copyright has been widely distributed to the public 50 and that state law purports to enforce contract rights in the copyright owner that reduce or eliminate the federal limitations on federal copyright rights in the distributed work. The argument that unprotected elements of a work that falls within the general class of copyright subject matter (literary work, musical work, compilation, etc.) are not "copyright subject matter" and may be freely regulated by the states is wholly untenable. 51

49. 17 U.S.C. § 106. These exclusive rights are the right to reproduce the work in copies, the right to prepare derivative works, the right to distribute copies to the public, and the rights to publicly perform and display the work.

50. In most cases, the work will actually be copyright protected, if only by a "thin" copyright. In a few cases, like Feist, 499 U.S. 340, and Zeidenberg, 86 F.3d 1447, copyright may actually be missing for want of originality or expiration of the federal term.

51. The argument is that because § 102(b) and Feist exclude certain elements of works from the scope of the copyright in the work, these elements are not copyright subject matter and are therefore eligible for state regulation. The subject matter of copyright, however, consists of "works of authorship," as set forth in § 102(a) (which is entitled "subject matter of copyright"), such as literary works, musical works, dramatic works, and audiovisual works. Section 103(a) expands this list by stating that "[t]he subject matter of copyright . . . includes compilations." State rights in these types of works that are equivalent to federal copyright rights are preempted:

As long as a work fits within one of the general subject matter categories of sections 102 and 103, the bill prevents the States from protecting it even if it fails to achieve Federal statutory copyright because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.

HOUSE REPORT, supra note 13, at 131.

The error in the argument against preemption confuses elements of works of copyright subject matter with the works containing such elements. Every copyright-protected work contains elements that are protected and elements that are unprotected. Original expression is protected; facts, ideas, systems, and the like are not protected. See 17 U.S.C. § 102(b). The copyright "subject matter" in Zeidenberg, for example, was a factual compilation. 86 F.3d 1447. The Supreme Court in Feist expressly stated that, "it is beyond dispute that compilations of facts are within the subject matter of copyright." 499 U.S. at 345. Nevertheless, it found no protected elements in the specific work before the Court. Id. According to Feist, the protected elements of such a work are the original selection and arrangement it portrays, if any. Id. The ideas and factual information contained, as a matter of basic federal copyright policy, lie beyond both federal copyright and state law protection.

A contrary conclusion leads to the absurd result that states can protect even expression after the federal copyright has expired. Suppose, for example, that a state can prohibit the copying of ideas contained in a published work. That must mean that a state can prohibit expressing the idea contained in a work even though copyright noninfringing expression is used. But the expression used by the author of the protected work supposedly goes into the public domain when the federal copyright has expired. That expression, by definition, expresses the idea. The idea, by hypothesis, is under state protection. Therefore, anyone who reproduces the expression after the federal copyright has expired necessarily reproduces the idea expressed and thereby violates the state law protecting the idea in the original author. Such a state regulation would therefore serve as a never-ending substitute for federal copyright.
Despite a few judicial pronouncements to the contrary, the weight of authority (including the Seventh Circuit in Zeidenberg) holds correctly that a work is copyright subject matter if it is of a type covered by sections 102 and 103 of the Copyright Act, even if federal law denies protection to all or a part of a work in a particular case.

The second prong of the section 301 analysis poses a more difficult problem—until we distinguish between privately negotiated contracts concerning unpublished works (or at least works of limited circulation) and works that are widely distributed. The problem is whether, given an enforceable contract under state law, promises not to exercise the users’ or the public’s rights arising from the 1976 Act’s limitations on the copyright owner’s copyright rights are equivalent to any of the exclusive rights under section 106 of the 1976 Act. The general rule is that state claims are preempted if the right defined by state law is infringed by an act that would, in and of itself, violate one of the exclusive rights under section 106 of the 1976 Act, but there is no preemption if the state claim requires an “extra element” that changes the nature of the action to make it qualitatively different from a copyright infringement claim. The existence of an actual bargain in negotiated contracts distinguishes state enforcement interests qualitatively from a copyright claim in that context. The absence of bargaining with respect to widely distributed works, however, leaves essentially no state interest in enforcing “contracts” that


53. 86 F.3d at 1453.

54. Financial Info., Inc. v. Moody’s Investors Serv., Inc., 808 F.2d 204, 209 (2d Cir. 1986), cert. denied, 108 S. Ct. 79 (1987); Harper & Row, Pubs., Inc. v. Nation Enter., 723 F.2d 195, 200 (2d Cir.) (that portions of a work may constitute material that is not copyright protected does not take the work as a whole outside of copyright subject matter), rev’d on other grounds, 471 U.S. 539 (1985); Durham Indus., Inc. v. Tomy Corp., 630 F.2d 905, 919 n.15 (2d Cir. 1980) (state unfair competition law cannot protect against copying of copyright subject matter that is unprotected by copyright for want of originality); Aldridge v. The Gap, Inc., 866 F. Supp. 312, 314 (N.D. Tex. 1994) (because clothing is copyright subject matter, state claims based on misappropriation through copying are preempted). The Second Circuit has recently endorsed this view strongly by holding that factual information concerning a copyright-unprotected sports event recorded in a copyright-protected broadcast could not be protected by state misappropriation law: “Copyrightable material often contains uncopyrightable elements within it, but Section 301 preemption bars state law misappropriation claims with respect to uncopyrightable as well as copyrightable elements.” National Basketball Ass’n v. Motorola, Inc., 105 F.3d 841, 849 (2d Cir. 1997). The Fourth Circuit, too, has just held that a state claim for the “conversion” of ideas contained in a copyright-protected work is preempted. United States ex rel. Berge v. Turstees of Univ. of Alabama, 104 F.3d 1453, 1463 (4th Cir. 1997) (“[T]he shadow actually cast by the Act’s preemption is notably broader than the wing of its protection.”).

55. E.g., Rosciszewski v. Arete Assocs., Inc., 1 F.3d 225, 229-30 (4th Cir. 1993) (state statute prohibiting the unauthorized use of a computer to obtain or convert property preempted insofar as it applies to the unauthorized copying of a computer program); Ehat v. Tanner, 780 F.2d 876 (10th Cir. 1985), cert. denied, 479 U.S. 820 (1986) (distinguishing conversion claim to recover for physical deprivation of documents from one for damages flowing from their reproduction and distribution).
eliminate restrictions on copyright rights other than the very expansion of such rights that the contract seeks to achieve, which makes the contract claim qualitatively the same as a copyright claim.

To see this, we first note that what federal copyright law under section 301 now recognizes as a permissible “contractual” expansion of those rights is a matter of federal, rather than state, law. It takes more, in other words, than a mere label from a state statute or court that a claim is “contractual” to avoid preemption under section 301. At the extreme, for example, a state statute might otherwise simply declare that every sale of a copy of a copyright-protected work automatically includes, as a part of the sale contract, a term promising not to use in a competing work ideas or facts contained in the protected work. A claim for wrongful use of the ideas or facts under such a statute would be “contractual” only because the state chose to attach that name. Whatever virtues such a statute might otherwise have, it does not promote the stability and confidence of personal business relationships that is the ground for nonpreemptive deference to the enforcement of actual negotiated agreements, because its operation requires no such relationship as a predicate. 56 A state could essentially replace all of copyright law by simply defining the copyright rights—or the state’s own version of such rights—as a part of the sale contract for copies.

Courts have already recognized this danger in preempting even claims involving breach of negotiated contracts when the breach involves engaging in section 106 exclusive rights. 57 Similarly, if the state statute provided a claim for damages from activities covered by the 1976 Act’s section 106 rights, without more, it would be preempted, and a state could not avoid the preemption simply by calling the claim “contractual.”

Given that federal law, then, must define the nature of the “contracts” that escape preemption and those that do not, it is fairly easy to see the borderline, at least in general terms. Professor Rice has convincingly shown that public distribution of copies of computer programs constitutes a sale or other transfer of ownership, notwithstanding shrinkwrap “licenses” purporting to deny

56. See infra notes 61-65 and accompanying text.
57. E.g., American Movie Classics Co. v. Turner Entertainment Co., 922 F. Supp. 926, 931-32 (S.D.N.Y. 1996) (no qualitative difference between breach of exclusive exhibition rights agreement and copyright claim for infringing right of public performance); Wharton v. Columbia Pictures Indus., Inc., 907 F. Supp. 144, 146 (D. Md. 1995) (all state claims, including that for breach of contract, alleged plagiarizing of copyright-protected screenplay); Wolff v. Institute of Elec. and Elec. Eng’r, Inc., 768 F. Supp. 66, 69 (S.D.N.Y. 1991) (breach of contract for “one-time” use by republishing without permission not qualitatively different from the copyright infringement claim and is therefore preempted); Smith v. Weinstein, 578 F. Supp. 1297, 1307 (S.D.N.Y. 1984) (merely rephrasing a copying claim under contract law is preempted but an agreement to pay for the value of ideas used may be enforceable); but see Architectronics, Inc. v. Control Sys., Inc., 933 F. Supp. 425, 439-41 (S.D.N.Y. 1996) (acknowledging that the necessary “extra element” is the promise itself for a negotiated contract, distinguishing Smith on the ground that the claim there was not truly based on a promise or contract, and expressly refusing to follow American Movie Classics and Wolff).
ownership in the physical copy.\textsuperscript{58} It is not that all terms of such adhesion contracts should be unenforceable, but the absence of any sort of bargaining utterly refutes the claim that a "special relationship" exists between buyer and seller of the type that might save, for example, a trade secret agreement between employer and employee.\textsuperscript{59} These shrinkwrap licenses might well be enforceable to the extent that they set terms of warranties, rights of return of the product, or similar economic aspects of the transaction, but insofar as they purport to grant the copyright owner greater rights than he or she would have under section 106, they are preempted. \textit{A fortiori}, a state statute or legal rule that purports to extend the "contractual" relationship to third parties who acquire their copies from the first purchaser would be preempted to the extent it enlarges upon the exclusive rights of copyright without requiring a significant and real relationship of a contractual nature—such as bargained-for agreements—as an element of the claim.\textsuperscript{60}

Professor Eisenberg has outlined the state’s interest in enforcing contractual terms in favor of a party who has rendered bargained-but-unpaid-for performance.\textsuperscript{61} First, the state has an interest in keeping the peace, and the party who has already performed may, absent legal enforcement, be more likely to resort to self-help. Second, the smooth functioning of an exchange economy depends on private planning, and the willingness to enter into

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58. David A. Rice, \textit{Licensing the Use of Computer Program Copies and the Copyright Act First Sale Doctrine}, 30 JURIMETRICS J. 157, 172-76 (1990); Rice, supra note 45, at 561-67. The key elements resulting in sales of mass-marketed products, as opposed to true leases, loans, or licenses, are the temporarily unlimited right of possession, unitary rather than serial payment, and—most importantly—restrictions designed to enhance rights in intangible copyright subject matter rather than to protect tangible property interests in the product sold. Rice, supra, at 172. See also Lemley, supra note 23, at 1244 n.23 (noting that most people think they are buying, rather than licensing, computer program copies because of the absence of bargaining, acquisition of possession in a retail shop, a fixed price that is paid up front, and a term that, in practice, is perpetual because the purported "licensor" essentially never terminates the "license").

59. Rice, supra note 45, at 563-65.

60. If state law purports to bind only the initial purchaser, on the ground that only that purchaser is in "privity of contract" with the copyright owner, it will have little effect in cases like \textit{Zeidenberg}. The copier need only find an independent purchaser of the copy of the work who is willing to sell it. Of course, if the shrinkwrap license purports to deny first-sale rights as well as the other users' rights of copyright—and if that too were enforceable—the copyright owner might have a claim for damages against the reseller, but it is hard to see any basis for enforcing the contract against his purchaser. A similar analysis applies to any state rule purporting to recognize a contractual relationship between on-line offerors of copyright-protected works and third-party purchasers from the first purchaser.

61. Melvin A. Eisenberg, \textit{The Bargain Principle and Its Limits}, 95 HARV. L. REV. 741, 744 (1982). I am indebted to my colleague Ira Ellman for making me aware of Professor Eisenberg's analysis. In this article, Professor Eisenberg considers the situation in which, after bargaining and contractual agreement, one party has performed and the question is the extent to which this "half-completed-bargain promise" should be enforced as a matter of contract law. In the shrinkwrap situation, the copyright owner has performed by delivering the goods, and while the buyer has performed an important part of her bargain by paying the purchase price, the shrinkwrap license requires her continued performance of its terms. This situation, therefore, seems to be within the range of that contemplated by Professor Eisenberg, but for the absence of bargaining. Of course, we are here assuming that the state contract law question has already been resolved in favor of enforcement, but Professor Eisenberg's identification of the underlying state policies is still relevant.

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exchanges over time depends at least in part on enforceability of promises. Finally, the fact that a bargain arises out of self interest rather than altruism helps insure that it will be deliberatively made.\textsuperscript{62}

None of these state interests are invoked by an adhesion shrinkwrap or on-line license covering widely distributed works. Self-help is in any event unavailable to give added protection to such works—indeed, it is the general unavailability of self-help remedies that creates the public-goods problem necessitating copyright protection in the first place. Such protection as the copyright owner has arises out of the Copyright Act and, if not preempted, from state-enforceable contract terms. To the extent such terms are preempted, the copyright owner is in the same position that copyright owners have always been in with respect to their widely distributed works.

The same is true for the state’s interest in encouraging reliance on planning. The copyright owner can rely on precisely those rights that copyright and nonpreempted state contract law provide. If copyright provides no protection for a particular element in a work, and if state protection is preempted, the copyright owner has the choice of publishing or not publishing, in full reliance on her knowledge of the extent of her rights in either case. If she chooses to publish notwithstanding preemption of copyright-expanding terms, she joins the group of copyright owners who for centuries have dedicated their ideas and factual information to the public domain upon publication of their works in exchange for copyright protection of the expression they contain.

Consequently, the state’s interest in avoiding self-help and in providing a stable environment for exchange transactions, while important in negotiated deals, do not assist in distinguishing state contract claims qualitatively from copyright claims in the “no bargain” context of shrinkwrap or on-line licenses covering widely available works. Moreover, Professor Eisenberg’s third factor—that bargains tend to be deliberatively made—points in the direction of preemption when bargaining is absent. In a true bargain over an otherwise inaccessible work, enforcing promises not to use even copyright-unprotected elements deprives the public of nothing it would otherwise have. Shrinkwrap licenses, however, involve much less deliberation over contract terms on the part of the purchaser of the copy of the work. More importantly, even where a particular purchaser does deliberate and is perfectly happy with the noncompete restrictions, the copyright owner is relying on the public’s grant of exclusive copyright rights but seeks to deny to the public the benefits that flow from the free use by others of the now freely available and (but for state law) unprotected elements.

\textsuperscript{62} Professor Eisenberg also notes the state’s interest in reducing problems of proof and suggests that fewer such problems arise when bargained-for performance has been rendered to an unrelated party. \textit{id}. We are here assuming, however, that the existence of an enforceable state “contract” has been shown, even in the absence of bargaining. This factor, therefore, does not seem to play a role in the preemption analysis.
In short, it is the element of actual bargaining that distinguishes a nonpreempted state contract claim from the preempted nominal "contract" claim under a shrinkwrap license. That bargaining is, in fact, a crucial copyright-relevant factor follows from an analysis of the structure of the Copyright Act and, in particular, the 1976 Act’s decision to bring unpublished works under the federal copyright umbrella. As discussed above and demonstrated in detail by Professor Kreiss, the federal copyright tradeoffs between copyright owners’ and users’ rights are very different depending on whether or not the copyright owner has chosen to commercialize the work in a manner that relies on the exclusive rights of copyright to solve the public goods problems that would otherwise undercut the copyright owner’s profits. When the copyright owner chooses to hold a protected work inaccessible to the general public, the public has no inherent right of access. Limitations on the use of ideas, facts, or other unprotected elements of the work, as a negotiated contractual condition to access, do not deprive the public of any right that it would otherwise have. When such a contractual condition is breached, therefore, the state breach of contract claim has an “extra element” in the form of a breach of promise that makes the claim qualitatively different from a copyright claim. Denying preemption of the state claim for breach of contract recognizes the overall social value of enforcing bargained-for agreements in personal business relationships, just as that value was recognized for unpublished works prior to their being brought under federal copyright in 1978. Federal copyright, however, has always defined crucial terms of the “bargain” copyright owners make with the public once the work has been published. Those copyright owners enjoy valuable and powerful exclusive rights with respect to their works, but there are limits to those rights; copyright owners are not free to abrogate them unilaterally, that is, without true bargaining as a condition of access.

Mass-market adhesion “licenses” clearly fail the test insofar as they purport to extend or expand federal copyright rights, but other transactions will have to be analyzed on the basis of their specific facts. Transfers of possession of physical goods embodying a fixation of copyright-protected works can constitute either a sale, on the one hand, or a lease or limited-use license, on the other. Although ultimately a matter of federal law, the analysis can begin with the traditional elements of one of these widely recognized forms of nonsale transfers of possession. The crucial factor in the analysis, however, is

63. See supra text accompanying notes 35-43.
64. Kreiss, supra note 2.
65. Cf. Abrams, supra note 45, at 579 (arguing that a prima facie case for preemption is made if a state claim effectively removes the public right to copy or use something that is known or distributed to the public or that the public otherwise would have received).
66. Limitations on time of possession, method of payment, and protection of a true tangible property interest in the product transferred will be important elements. See supra note 58.
whether the product has been distributed in such a way that access to the work embodied in the product has been made generally available without bargaining over the terms of access. That is always the case for the only works protected by copyright prior to the 1976 Act, namely, published works, and for works that may not technically be "published" but for which access is provided through public performances and displays. Bargaining has never been a condition of access to such works.

The bargaining test may also be satisfied even by a "limited publication" as that term came to be understood under the 1909 Copyright Act. The notion of limited publication under that statute was developed for the purpose of avoiding forfeiture of copyright through failure to attach the copyright notice to copies that had limited distribution. It has no relevance to the question of whether a purported contract extending federal copyright rights should be recognized. Ultimately, there will be close cases, but it is clear that the line must be drawn somewhere. To fail to do so would mean the end of the carefully drawn federal limits on copyright rights.

Wherever the line is ultimately drawn in distinguishing between nonpreempted bargained terms and preempted adhesion terms, the almost complete absence of such purported "contracts" with respect to traditional widely circulated works argues that most, if not all, shrinkwrap license terms purporting to expand federal copyright rights in widely distributed works should be preempted. That no one ever tried to use contracts to limit moviegoers or book readers in their use of facts or ideas contained in the works that they pay money to see or purchase shows fairly conclusively that relational "contract" is simply not involved in these situations. Literally papering over the transaction with verbiage that purports to be a contract does not change the underlying reality.

On-line licenses present a somewhat more difficult problem and are at least superficially susceptible to a different analysis. Shrinkwrap licenses purport to bind a purchaser to terms to which he or she did not specifically assent, but such assent can easily be made a condition of access in the Internet environment. We must be cautious in accepting these kinds of distinctions, however, because the end result is the same as in the case of the enforceable shrinkwrap license, namely, the transformation of copyright into a pure owners' rights statute. Works made available on-line (with the consent of the copyright owner) are widely circulated, or at least made available for wide circulation. The copyright owner thus rejects any continuing interest in privacy or secrecy with respect to the work and wishes to enjoy all of the exclusive rights of copyright. Indeed, a national commission has determined that such rights should even be strengthened to encourage the offering of such works in optimal quantities and quality on-line.67 On-line distribution of works is in

67. INFORMATION INFRASTRUCTURE TASK FORCE, INTELLECTUAL PROPERTY AND THE NATIONAL
these critical respects no different from traditional distributions. That copyright owner and individual copy purchaser can now communicate directly does not change the nature of their relationship in any significant way that would justify overriding the traditional limitations on the copyright rights upon which the copyright owner so heavily relies.

B. Preemption Under the Supremacy Clause

Preemption can also occur under the Supremacy Clause of the Constitution, where the state law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” Analysis of copyright preemption outside of section 301 must begin with the Supreme Court’s decision in Goldstein v. California.

Goldstein has been justly criticized for using commerce clause reasoning without recognition of the values that shape and constrain Congress’s exercise of its powers under the patent and copyright clause and for its “dismal” analysis of the national or local nature of copyright subject matter. Even Goldstein, however, accepted the preemptive reasoning of Sears and Compco under the patent law and concluded simply that the federal balances drawn for writings

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68. Hines v. Davidowitz, 312 U.S. 52, 67 (1941), quoted in Goldstein v. California, 412 U.S. 546, 561 (1973). Absent express preemption by Congress, the Supreme Court has recognized at least three circumstances giving rise to implied preemption: Field preemption, in which Congress has adopted a scheme so pervasive that the states have been left no room to supplement it, and two types of conflict preemption, namely, where compliance with both federal and state regulations is a physical impossibility and where state law stands as an obstacle to the accomplishment and execution of the congressional objectives. Gade v. National Solid Wastes Management Ass'n, 505 U.S. 88, 98 (1992). The argument in the text of this article is not based on either field preemption or on direct conflict resulting in physical impossibility. It argues rather that enforcement of state contract terms that expand federal copyright rights in widely distributed works fundamentally undermines federal copyright objectives. Id. at 98-99.

69. 412 U.S. 546. Goldstein was decided prior to the adoption of § 301 and found that state protection of sound recordings was not preempted. Since Goldstein, the Supreme Court has decided a number of cases concerning patent preemption of state intellectual property law, which have been carefully analyzed in connection with contractual reverse engineering prohibitions by Professor Rice. Rice, supra note 45. Goldstein is the Court’s only copyright preemption decision, and notwithstanding questions concerning the extent of its continued viability after the adoption of the 1976 Act and decisions like Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989), it is a useful starting point for the preemption analysis here. That analysis shows that even Goldstein demands preemption of shrinkwrap license terms expanding federal copyright rights.

70. Abrams, supra note 45, at 527-32, 580. In a passage that Professor Abrams could only label “all but bizarre,” id. at 528, the Goldstein Court reasoned that the wide diversity in copyright subject matter makes it unlikely that people in different parts of the country would attach the same importance to the same works. 412 U.S. at 566-57. Even if this is true for some specific works, such an assertion obviously provides no ground for allowing purely local regulation of wide classes of works that include the novels of John Grisham, the films of Stephen Spielberg, and the computer programs of Microsoft Corporation.


73. Of course, both Sears and Compco were strongly and unanimously reaffirmed in Bonito Boats, 489
that Congress had affirmatively included within copyright subject matter did not necessarily apply to writings that Congress had deliberately left out of the federal system:

The application of state law in [Sears and Compco] to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way under the Supremacy Clause of the Constitution. No comparable conflict between state law and federal law arises in the case of recordings of musical performances. In regard to this category of “Writings,” Congress has drawn no balance; rather, it has left the area unattended, and no reason exists why the State should not be free to act.\footnote{Goldstein, therefore, seems simply to apply the first of the section 301 prongs, namely, whether the work regulated by state law is copyright subject matter, in applying Supremacy Clause analysis. If it is, it would follow that any state law or regulation with respect to the work that frustrates “the accomplishment and execution of the full purposes and objectives of Congress” should be deemed preempted.

Most of the products that are the subject of shrinkwrap or on-line licenses involve copyright subject matter, such as literary, artistic, or musical works, sound recordings, computer programs, and databases. At least with respect to these works, therefore, even Goldstein would require inquiry into whether enforcement of the state claim would frustrate the goals of the Copyright Act.

The facts of Zeidenberg provide a good example of the way both the section 301 and the Supremacy Clause analysis should go in the litigation context of a specific “contract” case. Before undertaking those analyses, however, we should consider the more general approach to state control over the scope of federal copyright rights now under consideration by the drafters of proposed revisions to the Uniform Commercial Code.

C. Proposed Uniform Commercial Code Article 2B

The National Conference of Commissioners on Uniform State Laws is considering a new Article 2B to the Uniform Commercial Code entitled “Licenses.”\footnote{U.C.C. Art. 2B. LICENSES (Members Consultative Group Draft No. 1, Nov. 7, 1996) [hereinafter PROPOSED UCC Art. 2B]. Selected sections of Proposed Article 2B are reproduced in the Appendix to this article. Article 2B appears to be a joint project between the American Law Institute and the National Conference of Commissioners on Uniform State Laws.}

\footnote{412 U.S. at 569-70. Goldstein involved phonograph records, which Congress only brought under federal copyright protection in 1972. Consequently, they were “writings” that Congress had left unattended.}
term “license” not as descriptive of real world events, but rather as prescribing radically new substantive legal rules of contract law.76 Professor Lemley has already analyzed the policy difficulties involved in the Article 2B approach.77 I submit that Proposed Article 2B is unconstitutional—preempted by both section 301 of the Copyright Act and more generally under the Supremacy Clause—to the extent that it would enforce shrinkwrap and on-line license terms abrogating or reducing the Copyright Act’s limitations on the scope of federal copyright rights.

Proposed Article 2B is long and complex. The precise language of its crucial provisions is therefore set out in an Appendix to assist the reader in better following the preemption analysis.

The potential scope of the proposed provisions is breathtaking. By its terms Article 2B applies even to sales of software copies,78 and its broad definition of “information” makes enforceable shrinkwrap “licenses” available for essentially all objects embodying copyright subject matter.79 The contract need only expressly condition or limit rights in the information “licensed.”80 As long as the buyer has an opportunity to review the terms of a mass-market license within a reasonable time after beginning to use the information and manifests assent by, for example, continuing to use the information in accordance with the contract, the terms of the contract are enforceable.81 Essentially any control of the use of information is determined by the contract,82 a restriction on transfer is enforceable,83 and all duties of the original “licensee” carry over to that person’s valid assignee.84 It appears that such “contractual” restraints on the use of information will be enforceable under Proposed Article 2B even where the purported licensor has no other intellectual property rights in the information and even if the information is not confidential.85

77. Lemley, supra note 23 (arguments based on an earlier proposed draft of Article 2B but they apply with equal, if not greater, force to the current draft).
78. See PROPOSED UCC Art. 2B, supra note 75, § 2B-103(a), which applies Article 2B to “software contracts,” and § 2B-102(a)(33), which defines a “software contract” to include transfer of ownership of copies. As argued in the text herein, even purported “licenses” of widely distributed copies of works must be treated as sales for purposes of federal copyright law, notwithstanding the state-law labeling as a “license.” See supra notes 58-60 and accompanying text. How the drafters of Proposed Article 2B expect even a formal sale (i.e., transfer of ownership) of a software copy to escape the first-sale doctrine and the other copy owners’ rights under the Copyright Act is beyond my powers of imagination.
79. See PROPOSED UCC Art. 2B, supra note 75, § 2B-102(a)(18). Text, images, and sounds alone would seem to cover nearly all traditional works of literature, art, and music.
80. See id. § 2B-102(a)(21). Thus, even transfer of title to a copy of a book would be a “license” if the “buyer” manifests assent to a contract prohibiting, for example, transfer of the information contained in the book. Proposed § 2B-314(a) authorizes restricting use of “licensed” information to designated persons.
81. See id. §§ 2B-112(a), (c), -308(a), (b)(1), (c).
82. See id. § 2B-501(d).
83. See id. § 2B-504(a).
84. See id. § 2B-506(a).
85. Id. § 2B-102(a)(18) (defining “information” disjunctively as “data, text, images, sounds . . . or any
Let us consider a perhaps unrealistic example for the sake of making the point.86 Take a shrinkwrap license that expressly limits rights in information under section 2B-102(a)(21) by prohibiting the use of ideas contained in a literary work in creating new or competing works, limits use of the information to the person first acquiring the copy under section 2B-314(a), and prohibits transfer of the copy under section 2B-504(a). Assume further that the vast majority of consumers are not too troubled by these terms and will be willing to “manifest assent” in whatever manner is specified in the license (for example, by opening the package or, after having the opportunity to read the contract, by retaining and using the copy).

Enforceability of these terms in a mass-market distribution under Proposed Article 2B means that they are binding not only on the first purchasers,87 but also on their “assignees.”88 It is then clear that no one is legally permitted to take the ideas from the work for the purpose of creating a new work. Any such competing author would refuse to manifest assent to the offending term, but the terms of the contract would then deny him access to the ideas he would use. Anyone manifesting assent to the term, on the other hand, would be bound by the contract, as would any transferee under section 2B-506(a). Thus, the fundamental idea/expression distinction of copyright law is overridden by deftly drafted “contracts” enforceable under state law against the original purchaser and subsequent transferees. The public recognizes powerful copyright rights in the work but no longer gets the benefits resulting from new authors’ building on the ideas of prior authors.

In short, Proposed Article 2B tries to treat as a two-party contract law problem what is, in fact, a multiparty balance drawn by federal copyright law. It fails, quite simply, to recognize the public interest in the copyright balances

associated intellectual property rights or other rights in information”). In the on-line context, contractual restriction on the use of information is expressly sanctioned by § 2B-612(a). Although § 2B-703 allows for consequential damages where the breach involves disclosure of confidential information, that does not appear to affect the proprietor’s “contractual” rights in nonconfidential information. Unless the information becomes generally known to the public other than through acts of the party on whom the duty is imposed, § 2B-316(b), admittedly, enforces conditions of confidentiality or nondisclosure. That does not necessarily imply, however, that other restrictions on use are not enforceable where the information is not confidential. One would expect, for example, that the drafters of Proposed Article 2B intended that courts enforce the restrictions on use involved in Zendenberg, 86 F.3d 1147 (7th Cir. 1996) (involving nonconfidential telephone numbers). Moreover, § 2B-314(a) allows limiting the use of “information” to specified persons, with no requirement that the information be confidential. Finally, because § 2B-316(b) covers conditions of confidentiality or nondisclosure, it raises an issue of whether a nondisclosure condition would not remain enforceable even after wide circulation. The issue is whether widely distributed information ceases to be confidential under § 2B-316(b) if every “licensee” acquires the information under a duty not to disclose it.

86. The example is unrealistic because it is practically impossible to enforce an agreement not to use or transfer ideas contained in a work. It is not unrealistic to expect copyright owners to try to limit uses in this way, however.

87. If the “license” is valid, they would of course no longer be “first purchasers” but rather “first acquirors of copies pursuant to the license.” The term “purchaser” is used here solely for economy of language, without intending to assume the conclusion that a “sale” within the meaning of the Copyright Act has occurred. No verbal tricks are necessary to reach that conclusion.

88. PROPOSED UCC Art. 2B, supra note 75, § 2B-506.
drawn by the idea/expression distinction, the fact/expression distinction, the first-sale doctrine, and fair use. By defining as "license" what is in practice a "sale" and extrapolating principles applicable to bargained-for exchanges to mass-market transactions binding on everybody (because transferees are bound by the contractual restrictions as well), Proposed Article 2B allows, through drafting by the copyright owner, expansion of copyright rights by unilateral abrogation of the federal limits on those rights. To this extent, therefore, it creates state contract rights equivalent to (and broader than) federal copyright rights and is preempted under section 301 of the Copyright Act. Moreover, by fundamentally resetting the balance between the federal rights of owners and users of copyright-protected works, it frustrates the accomplishment of the purposes and objectives of Congress. It is therefore, again to this extent, preempted by the Supremacy Clause.

D. Zeidenberg Revisited Under Section 301

At issue in Zeidenberg was a factual database consisting of a nationwide telephone directory. The copyright owner purported to bind purchasers such as the defendant to noncommercial use, pursuant to a shrinkwrap license. In breach of this contract, the defendant downloaded the information into a new database that he made available over the Internet.

In deciding this case, Judge Easterbrook relied on just three earlier decisions to determine that the shrinkwrap license involved was not preempted, each of which involved a negotiated contract. Two of these cases involved a use of the work that did not invoke either a section 106 right or a limitation on such a right. The third involved a complex exclusive sales agent

89. 86 F.3d 1447 (7th Cir. 1996).
90. Id. at 1454 citing National Car Rent Sys., Inc. v. Computer Assocs. Int'l, Inc., 991 F.2d 426 (8th Cir.), cert. denied, 510 U.S. 861 (1993), Taquino v. Teledyne Monarch Rubber, 893 F.2d 1488 (5th Cir. 1990), and Acorn Structures, Inc. v. Swartz, 846 F.2d 923 (4th Cir. 1987). The Second Circuit in National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997), cites Zeidenberg with approval on the point discussed earlier that Judge Easterbrook got right, namely, that a work is within copyright subject matter if it is of a type covered by §§ 102 and 103 of the Copyright Act, even if federal law affords no protection in a particular case. See supra notes 50-54 and accompanying text. It supplies no support, however, for Judge Easterbrook's erroneous conclusion that the shrinkwrap license in Zeidenberg was a nonpreempted "contract" under federal law. If anything, the NBA case supports the contrary conclusion. NBA involved the taking for commercial purposes of factual information from the broadcast of a sports event. Although the broadcast was a protected audiovisual work, the underlying sports event was not. By finding preemption where the owner of the underlying rights in the copyright-protected game chooses to take the benefits flowing from public broadcasting and the copyright protection that attaches to such recorded broadcasts, the Second Circuit supports the argument made herein that the copyright owner cannot have the best of both worlds: The full protection of copyright for widely disseminated works and state-law protection for copyright-unprotected elements of those works.
91. National Car Rental Sys., 991 F.2d 426 (contractual promise to limit use of the licensed program to processing only the data of the contracting party); Acorn Structures, 846 F.2d 923 (enforcing a promise either to purchase the copyright-protected plans or to purchase building materials from the copyright owner if the plans were used). I do not suggest that either of these cases was necessarily decided correctly. In neither case, however, did the enforced contract provision attempt to expand the copyright owner's exclusive
agreement that was breached by the agent's representation of a competitor prior to termination of the relationship and use incidental thereto of the first company's sales materials. 92

Judge Easterbrook analogizes the contract in Zeidenberg to the consensual protection of trade secrets. He does not analyze the potentially different nature of the relationship between employer and employee on the one hand and that between the manufacturer of widely distributed goods and the many purchasers of those goods on the other. Such a manufacturer never even meets these purchasers, let alone has a relationship of confidence and trust with them. 93 Judge Easterbrook also analogizes to the rental of a film on video under the requirement that the film be returned in two days, without any recognition of the difference between a true rental of a copy (from the owner of the physical copy rather than the copyright owner) and a time-unlimited "license" of a copy that in all practical aspects is indistinguishable from a sale—or any recognition that the limitation in question does not in any event have any effect on any of the section 106 rights. 94

Judge Easterbrook is on firmer ground in pointing out that the copyright owner in Zeidenberg was simply trying to price discriminate between business and personal users and that such price discrimination can have a beneficial effect in optimizing the number of copies available to the different types of purchasers at a price they are willing to pay. 95 Even here, however, he fails to

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92. Taquino, 893 F.2d 1488. In Zeidenberg, Judge Easterbrook states that the Taquino decision represents a court of appeals decision holding that contract rights are not among the exclusive rights of copyright. 86 F.3d at 1454. In fact, the Fifth Circuit perfunctorily upheld the trial court's finding of a breach of contract without any reference to the copying of the sales materials. The trial court opinion, which is appended to the Fifth Circuit opinion, does state baldly that a breach of contract action, apparently in and of itself, involves an additional element that avoids preemption, but it supplies no reason. Taquino, 893 F.2d at 1501. Nor, apparently, did the court award any damages specifically related to the copying activity that supposedly breached the contract, as opposed to the representational breach, although this point is difficult to confirm because the lower court opinions appear not to have been published. The Fifth Circuit opinion simply states that damages were awarded for "lost profits." Id. at 1491.

93. Zeidenberg, 86 F.3d at 1454. Judge Easterbrook even says that distributing object code while concealing source code is the point of a shrinkwrap clause prohibiting disassembly and "serve[s] the same procompetitive functions as does the law of trade secrets." Id. at 1455 (citations omitted). He shows no awareness that this might conflict with the fundamental copyright users' right to disassemble a program when that is necessary to understand the ideas or other unprotected elements (including trade secrets) contained in the program. See Sega Enter. Ltd. v. Accolade, Inc., 977 F.2d 1510 (9th Cir. 1992), amended by Order and Amended Opinion, No. 92-15655, 1993 U.S. App. LEXIS 78 (9th Cir. Jan. 6, 1993); DSC Comm. Corp. v. DGI Tech., Inc., 898 F. Supp. 1183 (N.D. Tex. 1995), aff'd, 81 F.3d 597 (5th Cir. 1996); see generally Rice, supra note 45 (examining the extent that federal law preempts the enforcement of software license terms that prohibit reverse engineering).

94. See Zeidenberg, 86 F.3d at 1454. Section 106 rights are reproduction, preparation of derivative works, and public distribution, performance, and display. 17 U.S.C. § 106. Having to return a copy of the work in two days to the owner of the copy cannot affect these rights, because the owner of the copy does not own the copyright. Id. § 202 (distinguishing ownership of a copy from ownership of the copyright). Professor Rice's contribution to this Symposium focuses more fully on this erroneous conflation of rights in physical copies with copyright rights in intangible works of authorship. Rice, supra note 76.

95. 86 F.3d at 1449-50, 1454.
deal with the fundamental implications of the Supreme Court’s decision in Feist, reaffirming in the strongest possible terms that copyright in a work does not and cannot protect the factual information contained therein and applying that principle to precisely the kind of information the defendant in Zeidenberg was found liable for copying—telephone numbers. The nonoriginality and therefore copyright nonprotectibility of facts is a matter of fundamental federal, and under Feist even constitutional, policy. Allowing such protection under state law without a strong showing of a state interest that fundamentally distinguishes the state scheme qualitatively from copyright’s limited protection against copying (even misappropriative copying) must be preempted under section 301. The next sections show that it must also be preempted under the Supremacy Clause.

E. Zeidenberg Revisited Under the Supremacy Clause

Feist expressly held that the factual information contained in a compilation of telephone numbers is not copyright protected, notwithstanding that factual compilations are copyright subject matter and are copyright protected if they exhibit sufficient originality in the selection or arrangement of their contents. The completeness of the database in Zeidenberg ruled out any originality in the selection of its contents, and because the defendant loaded the information into his own independently created database, the defendant did not copy any arrangement created by the plaintiff, even assuming that the arrangement of the information on plaintiff’s CD ROM was sufficiently original (with the plaintiff) to qualify for copyright protection.

In analyzing the definition of a “compilation” under the Copyright Act, Feist makes clear that congressional policy is to deny copyright protection to facts as such. Earlier portions of the opinion even make the nonprotection of facts a cornerstone of the constitutional policy to promote the progress of science and the useful arts. If the shrinkwrap license in Zeidenberg does not offend these policies, it is difficult to see how ordinary telephone white pages can be distinguished. Thus, the creator of any telephone book white pages could, by including a shrinkwrap license with every copy, expand intellectual property protection even beyond the limited copyright protection they would have received under the old “sweat of the brow” cases, reducing Feist in the process to a nullity.

97. Id. at 361-62.
98. 17 U.S.C. § 101 (definition of “compilation”).
99. 499 U.S. at 357 (“The purpose of the statutory definition is to emphasize that collections of facts are not copyrightable per se.”).
100. Id. at 344-51.
101. E.g., Leon v. Pacific Tel. & Tel. Co., 91 F.2d 484 (9th Cir. 1937).
It is, of course, true that digital technology has in many circumstances increased the opportunities for misappropriative takings of the fruits of effort and expense,\(^{102}\) and Zeidenberg may well be such an instance. Still, the federal policy for the nonprotection of factual information in a product that has been widely distributed was set forth by the Feist Court with absolute clarity:

It may seem unfair that much of the fruit of the compiler’s labor may be used by others without compensation. As Justice Brennan has correctly observed, however, this is not “some unforeseen byproduct of a statutory scheme.” It is, rather, “the essence of copyright,” and a constitutional requirement. The primary objective of copyright is not to reward the labor of authors, but “[t]o promote the Progress of Science and useful Arts.” To this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work. This principle, known as the idea/expression or fact/expression dichotomy, applies to all works of authorship. As applied to a factual compilation, assuming the absence of original written expression, only the compiler’s selection and arrangement may be protected; the raw facts may be copied at will. This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art.\(^{103}\)

Both federal statutory and constitutional policy are therefore clear that neither copyright nor copyright-like protection is available for facts contained in copyright subject matter. A negotiated contract pursuant to which copyright- unprotected factual information is revealed as a condition to access does not offend this policy, as the contract binds only the parties actually participating in the negotiations and removes nothing from the public that the public would otherwise have. A purported “contract” on widely distributed products, however, essentially binds the world, just like copyright, because no more is required to establish the expanded rights than the inclusion of a piece of paper with the product claiming such rights.\(^{104}\) The same analysis applies to

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\(^{102}\) See generally O’Rourke, supra note 34 (arguing against preemption and recommending antitrust law as the appropriate medium for drawing the social policy balances).

\(^{103}\) 499 U.S. at 349-50 (citations omitted).

\(^{104}\) Judge Easterbrook seems to assume that the contract would not be binding on third parties who, for example, find a copy of the work on a public street, although even in this case he suggests that there may be some limits on what such a party may do with the program necessary to read the factual information contained on the disk. ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996). A full analysis of this “exception” is beyond the scope of this article. Anyone finding a book on the street, of course, would be permitted to read it without infringing any copyright rights, but whether someone finding a computer program on the street would be able to use it in the way it was intended to be used by its maker raises the question of whether and in what circumstances using a computer program constitutes a potentially infringing reproduction. Cf. 17 U.S.C. § 117; MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993). Beyond that is the question of whether and how state law makes the “contract” binding on third parties. If state law does not provide an effective mechanism to bind third parties, one practical result of cases like Zeidenberg will simply be increased ingenuity in locating independent purchasers of the desired product from whom it can be repurchased without being bound by the license terms. That would increase the complexity of legal and business life and create much uncertainty in the understanding of the applicable legal rules, but the practical importance of the federalism and preemption analysis would be correspondingly reduced. That analysis, however, does not and should not depend on such niceties of state law. Even binding the original purchaser pursuant to a shrinkwrap license that reduces or eliminates the fundamental limits on the copyright
shrinkwrap licenses on other types of works that purport to limit the basic rights of users under section 102(b) or fair use. Enforcement of such contracts frustrates basic federal copyright policy honed by the courts over decades and to a significant degree codified in the 1976 Act. Consequently, preemption is mandated even under the Goldstein approach to the Supremacy Clause.

VII. CONCLUSION

The damage to public policy of enforcing shrinkwrap licenses purporting to protect, for example, the historical or scientific theories expressed in a widely distributed book or article is, I believe, widely and easily recognized. Had the issue first arisen in this format, I am confident that the courts would have summarily thrown out the state law claims. After Feist, however, the public policy of allowing copying of factual information that is expensive to collect but easy to copy (especially in the digital age) is less clear, notwithstanding that the work has been widely distributed. It is one thing to say as an abstract matter that copyright does not protect “sweat.” It is another to allow electronic copying of computer databases that have been assembled at great cost, on the natural-rights-sounding ground that they show no ingenuity or “creativity” in their final form.

It is not entirely clear that Feist has, in fact, created a serious danger of underprotection and incentive-eroding misappropriation. Possibly being first with updates of information and/or having a reputation for accuracy and after-sale service will still suffice to insure that such sweat works remain available in reasonable quantities. If, however, this apparent misappropriation problem is in need of solution, the correct approach cannot be through the blunderbuss of allowing state “contract” law to remove all limits on the scope of federal copyrights with respect to widely distributed works. A problem with the scope of federal law should be resolved by Congress, the body authorized by the Constitution to deal with these problems. If we have learned nothing

owner’s rights offends the federal policies on which copyright is based. There is no point in making competitors who use copyright-unprotected elements from widely distributed works jump through hoops unrelated to the underlying copyright policies just to obtain the benefit of their users’ rights under the copyright tradeoffs.

105. 17 U.S.C. §§ 102(b) (excluding ideas, principles, and so forth, from the copyright covering the work expressing them), 107 (fair use).


108. It may be objected that Congress has no authority to adopt database protection legislation that would cover works lacking “authorship” as defined by Feist. The argument is that the more general commerce clause cannot override the specific limitations imposed on the type of intellectual property legislation Congress may adopt under the patent and copyright clause. Paul J. Heald, The Vices of Originality, 1991 SUP. CT. REV. 143, 168-75. Others believe, however, that Congress does have power under the commerce
else from the long history of trying to draw the appropriate copyright balances for factual compilations, it is at least clear that the correct answer can be achieved only through full and fair consideration of the public benefits that flow from the free use of information as well as from the incentives supplied by intellectual property law to the creators of information products. Judicial validation of "contracts" that wholly tilt the balance in favor of the producers at the expense of users and the general public cannot be right.

clause to enact "sweat" protection statutes. E.g., Michael B. Gerdes, Comment, Getting Beyond Constitutionally Mandated Originality As a Prerequisite for Federal Copyright Protection, 24 ARIZ. ST. L.J. 1461 (1992).

Legislation was introduced in 1996 that would have recognized a new form of legal protection for databases, presumably in reliance on the commerce clause. H.R. 3531, 104th Cong., 2d Sess. (1996). The U.S. has also been active internationally, proposing a treaty to cover databases. 52 Pat. Trademark & Copyright J. (BNA) 141 (May 30, 1996). Domestic legislation might then also be based on the treaty power. Given that the statutory definition of "compilation" would have been sufficient to decide the Feist case, we probably should be wary of reading into it too much of a limitation on the powers of Congress under the other clauses. This does not detract, however, from the authority of Feist's comments on the nature of fundamental federal copyright policy.
APPENDIX

SELECTED SECTIONS OF PROPOSED UCC ARTICLE 2B
MEMBERS CONSULTATIVE GROUP DRAFT NO. 1, NOVEMBER 7, 1996

Sec. 2B-102(a)(18). "Information" means data, text, images, sounds, computer programs, software, databases, mask works, or the like, or any associated intellectual property rights or other rights in information.

Sec. 2B-102(a)(21). "License" means a contract for transfer of rights in information which expressly conditions or limits them, whether or not the contract transfers title to a copy of the information.

Sec. 2B-102(a)(25) (Alternative A). "Mass-market license" means a standard form prepared for and used without negotiation except as to quantity, price, and standard options in a market that, for the particular type of information, is characterized primarily by transactions involving consumers as licensees and that is used in a transaction whose terms and quantity are characteristic of consumer contracts in that market.

Sec. 2B-102(a)(25) (Alternative B). "Mass-market license" means a standard form used or to be used in multiple transactions where the sale or license of the particular information is directed to the general public through retail or similar distribution under substantially the same terms for the same information, if:

   (A) the license is acquired or received by an end user under terms consistent with that general distribution;
   (B) the information is not customized or otherwise specially prepared for the particular licensee;
   (C) the licensee does not have an opportunity to negotiate terms other than price, quantity, and standard options.

Sec. 2B-102(a)(33). "Software contract" means an [sic] contract to transfer rights in software . . . whether the contract provides for transfer of ownership of or conditional rights in copies of the software . . . .

Sec. 2B-103(a). This article applies to a license of information or a software contract . . . .

Sec. 2B-112(a). A party or electronic agent manifests assent to a record or term if, after having an opportunity to review the record or term under Section 2B-113, it:

   (1) authenticates a record, or engages in other affirmative conduct that the record conspicuously provides or the circumstances clearly indicate will constitute acceptance; and
record conspicuously provides or the circumstances clearly indicate will constitute acceptance; and

(2) had an opportunity to decline to authenticate the records or terms or engage in the conduct after having an opportunity to review.

Sec. 2B-112(c). If assent to a particular term in addition to assent to a record is required, conduct of a party or an electronic agent does not manifest assent to that term unless there was an opportunity to review the term and the authentication or conduct manifesting assent relates specifically to the term.

Sec. 2B-308(a). Except as otherwise provided in subsection (b) and Section 2B-309, a party adopts the terms of a mass-market license if, before or within a reasonable time after beginning to use the information pursuant to an agreement or commencing performance, the party manifests assent to the license. [Section 2B-309 covers an exchange of standard form contracts and is not of direct relevance to the discussion in the text, which is concerned with the enforceability of unilateral “contracts” running from the owner of copyright rights in a work to persons acquiring possession of copies of the work.]

Sec. 2B-308(b). Terms adopted under subsection (a) include all of the terms of the license without regard to the knowledge or understanding of individual terms by the party assenting to the form. However, except as otherwise provided in subsection (c), a term does not become part of the contract if the term creates an obligation or imposes a limitation on the party that did not prepare the form which:

(1) a reasonable person in the position of the party proposing the form should know would cause a reasonable person in the position of the party receiving the form to refuse the license if the term were brought to the attention of that party . . . .

Sec. 2B-308(c). A term excluded under subsection (b) becomes part of the contract if the party that did not prepare the form manifests assent to the term.

Sec. 2B-314(a). If a license expressly limits the persons permitted to use information, use by a person other than a designated person is a breach of contract.

Sec. 2B-316(b). A term of a license which creates conditions of confidentiality or nondisclosure is enforceable unless it imposes or continues those conditions on information that is or becomes generally known to the public other than through an act of the party on which duties of confidentiality and nondisclosure are imposed. . . .
Sec. 2B-501(d). In a license, the following rules apply to copies of information:

(1) A licensee’s right to possession or control of a copy is governed by the contract and does not depend on title to the copy.

(2) Title to a copy is determined by the contract . . .

Sec. 2B-502(b). A licensee may not transfer . . . rights under a nonexclusive license . . . unless: (1) the licensee received delivery of a copy subject to a mass-market license and transfers the original copy and all other copies made by it . . .

Sec. 2B-504(a). Except as otherwise provided in subsection (b) [dealing with security interests], a contractual restriction or prohibition on transfer of an interest of either party to a contract or of a licensor’s ownership of intellectual property rights in information that is the subject of a license is enforceable.

Sec. 2B-506(a). Unless an assignment is limited to creating a security interest, acceptance of the assignment of contractual rights constitutes a promise by the assignee to perform the accompanying duties of the assignor.

Sec. 2B-612(a). Information obtained by a licensee in an access contract is free of any restriction by the licensor except express contractual restrictions on the information and restrictions resulting from the intellectual property rights of a licensor or other applicable law . . .

Sec. 2B-703. An aggrieved party that has a right or interest in confidential or trade secret information may recover as consequential damages an amount as measured in any reasonable manner that compensates it for any loss of, or damage to, the party’s interest or right in that information caused by a breach of contract involving disclosure of the information.